

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Oakley, Kansas
Audit Report
July 1, 2010 to June 30, 2011

MAPES & MILLER
Certified Public Accountants
Quinter, Kansas

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Oakley, Kansas
Audit Report
July 1, 2010 to June 30, 2011

Table of Contents

	<u>Page Numbers</u>
Independent Auditor's Report	1
<u>Financial Statements</u>	
STATEMENT 1	
Summary of Cash Receipts, Expenditures and Unencumbered Cash	3
STATEMENT 3	
Statement of Cash Receipts and Expenditures - Actual	
General Fund	4
Special Revenue Funds	5
Notes to the Financial Statements	9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Audit Standards</u>	15
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and Internal Control over Compliance In Accordance with OMB Circular A-133	17
Schedule of Findings and Questioned Costs	20
<u>Supplemental Information</u>	
SCHEDULE 1	
Schedule of Cash Receipts and Expenditures-Actual	
Head Start	21
Schedule of Expenditures of Federal Awards	22

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Oakley, Kansas 67748

We have audited the accompanying financial statements of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the guidance in the Kansas Municipal Audit Guide, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the District has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Page Two

principles generally accepted in the United States of America, the financial position of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, as of June 30, 2011, or the changes in its financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, as of June 30, 2011, and its cash receipts and expenditures for the year then ended, taken as a whole, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2012, on our consideration of Northwest Kansas Educational Service Center, Interlocal District No. 602's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, taken as a whole. Schedule 1 as listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is also not a required part of the financial statements. The schedule of expenditures of federal awards and Schedule 1 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole on the basis of accounting described in Note 1.

Mapes & Miller

Certified Public Accountants
January 23, 2012

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER

Interlocal District No. 602

Summary of Cash Receipts, Expenditures and Unencumbered Cash For the Year Ended June 30, 2011

STATEMENT 1

Fund	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds:						
General Funds						
General Fund	\$ 211,988	2,938,245	2,814,248	335,985	61,001	396,986
Special Revenue Funds						
Capital Outlay Fund	400,241	35,234	58,803	376,672	38,368	415,040
Professional Development Fund	123,551	114,287	123,317	114,521	10,098	124,619
Special Education Fund	1,727,106	7,947,851	7,531,768	2,143,189	8,602	2,151,791
Food Service Fund	0	134,537	134,537	0	0	0
Vocational Education Fund	11,385	17,672	17,672	11,385	0	11,385
Parents As Teachers Fund	52,563	90,497	95,820	47,240	131	47,371
Federal Grants Fund	(19,016)	587,647	553,025	15,606	54,106	69,712
Medicaid Fund	742,856	258,915	248,160	753,611	0	753,611
Adult Services Fund	8,230	48,385	85,569	(28,954) *	3,247	(25,707)
Total Reporting Entity	\$ 3,258,904	12,173,270	11,662,919	3,769,255	175,553	3,944,808

* See the Notes to the Financial Statements, 6. Statutory Compliance

Composition of Cash:	
Farmers State Bank, Oakley, KS	\$
Checking Accounts	1,500
Super NOW Accounts	3,286,839
Certificates of Deposit	550,000
Total Farmers State Bank	3,838,339
The Bank, Oakley, KS	
Checking Accounts	106,469
Total Reporting Entity	\$ 3,944,808

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
General Fund

STATEMENT 3
Page 1

Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2011

	Actual
Cash Receipts:	
State Aid	\$ 332,403
Participating Districts	425,476
Federal Aid	1,498,040
Federal Aid - ARRA	567,487
Miscellaneous (printing, etc)	9,531
Reimbursements	90,011
Donations	15,297
Total Cash Receipts	2,938,245
Expenditures:	
Instruction	1,876,235
Student Support Services	127,293
Instructional Support Staff	45,921
General Administration	123,467
School Administration	401,420
Operations and Maintenance	149,890
Student Transportation Services	20,859
Vehicle Services and Maintenance Services	8,266
Other Supplemental Services	60,897
Total Expenditures	2,814,248
Cash Receipts over (under) Expenditures	123,997
Unencumbered Cash, Beginning	211,988
Unencumbered Cash, Ending	\$ 335,985

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Special Revenue Funds
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2011

STATEMENT 3
Page 2

	<u>Actual</u>
Capital Outlay Fund	
Cash Receipts:	
Interest on Idle Funds	\$ 11,214
Other Revenue From Local Source	<u>24,020</u>
Total Cash Receipts	<u>35,234</u>
Expenditures:	
Student Support Services	53,589
Operation and Maintenance	1,675
Land Improvement	<u>3,539</u>
Total Expenditures	<u>58,803</u>
Cash Receipts over (under) Expenditures	(23,569)
Unencumbered Cash, Beginning	<u>400,241</u>
Unencumbered Cash, Ending	<u><u>\$ 376,672</u></u>
 Professional Development Fund	
Cash Receipts:	
Federal Aid	\$ 69,020
Fees - Participating Districts	21,969
Fees - Other	<u>23,298</u>
Total Cash Receipts	<u>114,287</u>
Expenditures:	
Instruction	500
Instructional Support Staff	<u>122,817</u>
Total Expenditures	<u>123,317</u>
Cash Receipts over (under) Expenditures	(9,030)
Unencumbered Cash, Beginning	<u>123,551</u>
Unencumbered Cash, Ending	<u><u>\$ 114,521</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER

Interlocal District No. 602

Special Revenue Funds

Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2011

STATEMENT 3

Page 3

	<u>Actual</u>
Special Education Fund	
Cash Receipts:	
State Aid	\$ 4,214,560
Federal Aid	1,406,739
Federal Aid - ARRA	689,687
Participating Districts	1,274,070
Other Grants	47,670
Other Revenue From Local Sources	50,075
Reimbursements	17,051
Transfer from Medicaid Fund	<u>247,999</u>
Total Cash Receipts	<u>7,947,851</u>
Expenditures:	
Instruction	4,758,004
Student Support Services	1,575,940
Instructional Support Staff	484,139
Special Area Administration Services	78,740
School Administration	609,965
Operations and Maintenance	<u>24,980</u>
Total Expenditures	<u>7,531,768</u>
Cash Receipts over (under) Expenditures	416,083
Unencumbered Cash, Beginning	<u>1,727,106</u>
Unencumbered Cash, Ending	<u><u>\$ 2,143,189</u></u>
 Food Service Fund	
Cash Receipts:	
Federal Aid	<u>\$ 134,537</u>
Expenditures:	
Food Service Operations	<u>134,537</u>
Cash Receipts over (under) Expenditures	0
Unencumbered Cash, Beginning	<u>0</u>
Unencumbered Cash, Ending	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Special Revenue Funds
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2011

STATEMENT 3
Page 4

	<u>Actual</u>
Vocational Education Fund	
Cash Receipts:	
Federal Aid	\$ <u>17,672</u>
Expenditures:	
Instruction	16,798
School Administration	<u>874</u>
Total Expenditures	<u>17,672</u>
Cash Receipts over (under) Expenditures	0
Unencumbered Cash, Beginning	<u>11,385</u>
Unencumbered Cash, Ending	\$ <u><u>11,385</u></u>
 Parents As Teachers Fund	
Cash Receipts:	
State Aid	\$ 46,654
Fees - Participating Districts	25,043
Other Grants	<u>18,800</u>
Total Cash Receipts	<u>90,497</u>
Expenditures:	
Student Support Services	65,952
Instructional Support Staff	<u>29,868</u>
Total Expenditures	<u>95,820</u>
Cash Receipts over (under) Expenditures	(5,323)
Unencumbered Cash, Beginning	<u>52,563</u>
Unencumbered Cash, Ending	\$ <u><u>47,240</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Special Revenue Funds
Statement of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2011

STATEMENT 3
Page 5

	<u>Actual</u>
Federal Grants Fund	
Cash Receipts:	
Federal Aid	\$ <u>587,647</u>
Expenditures:	
Instruction	182,696
Student Support Services	18,604
Instruction Support Staff	259,647
General Administration	90,917
School Administration	<u>1,161</u>
Total Expenditures	<u>553,025</u>
Cash Receipts over (under) Expenditures	34,622
Unencumbered Cash, Beginning	<u>(19,016)</u>
Unencumbered Cash, Ending	<u><u>\$ 15,606</u></u>
 Medicaid Fund	
Cash Receipts:	
Kansas Health Policy Authority - Medicaid	\$ <u>258,915</u>
Expenditures:	
Spectra Expenditures	161
Transfer to Special Education Fund	<u>247,999</u>
Total Expenditures	<u>248,160</u>
Cash Receipts over (under) Expenditures	10,755
Unencumbered Cash, Beginning	<u>742,856</u>
Unencumbered Cash, Ending	<u><u>\$ 753,611</u></u>
 Adult Services Fund	
Cash Receipts:	
Federal Aid	\$ 19,239
Other Grants	<u>29,146</u>
Total Cash Receipts	<u>48,385</u>
Expenditures:	
Instruction	77,133
Student Support Services	<u>8,436</u>
Total Expenditures	<u>85,569</u>
Cash Receipts over (under) Expenditures	(37,184)
Unencumbered Cash, Beginning	<u>8,230</u>
Unencumbered Cash, Ending	<u><u>\$ (28,954)</u></u>

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Notes to the Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies

Reporting Entity

Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, operates as an interlocal agreement district in accordance with the laws of the State of Kansas. The District is operated by an elected board of directors and provides the following services: general and special education services. The Board of Directors consists of one member from the board of education of each school district, which is a member of the interlocal agreement district.

Accounting principles generally accepted in the United States of America require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading or incomplete. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and imposes its will on that organization. The primary government may also be financially accountable if an organization is fiscally dependent on the primary government, regardless of the authority of the organization's governing body.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that as of June 30, 2011, and for the year ended, Northwest Kansas Educational Service Center, Interlocal District No. 602 did not have any component units, which would be required to be reported.

Fund Accounting

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the District for the fiscal year ended June 30, 2011:

Governmental Type Funds:

General Funds--to account for all resources except those required to be accounted for in another fund.

Special Revenue Funds--to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to be expended for specified purposes.

Reimbursements

Reimbursed expenditures are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenditures shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expenditure was directly tied to the amount of the original cash disbursement.

Inventories and Prepaid Expenses

Inventories and prepaid expenses, which benefit future periods, are recorded as expenditures during the year of purchase.

Statutory Basis of Accounting

The statutory basis of accounting, as used in the preparation of these financial statements, is designed to demonstrate compliance with the cash basis laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidence by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and expenditure would be charged in the fund from which the transfer is made.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation, which shows cash receipts, cash and unencumbered cash balances, and expenditures. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings,

and equipment owned by the District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

2. Budgetary Information

Spending by the Northwest Kansas Educational Service Center is not subject to the legal annual operating budget requirements, but is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

3. Compensated Absences

Classified employees are granted personal leave based upon their work agreement. Unused personal leave can be accumulate up to 60 days and carried over to a subsequent year as sick leave. Accumulated leave in excess of 60 days is eligible for buy-back at a rate established annually by the Board of Directors. Classified employees on a 245 day work agreement are granted ten days of vacation time per year. After completion of three years of employment, vacation time is increased to a maximum of fifteen days. Vacation days may be accumulated but must be used within 60 days after year-end for which the vacation days were earned.

All certified employees working on a full-time basis receive fifteen days of personal leave per contract year. Personal leave not used in the current year may accumulate to a maximum of 480 hours and be used as sick leave. Sick leave hours in excess of 480 days are paid at a rate of \$75 per day on or before June 30. Upon termination of employment, sick leave hours in excess of 240 hours are paid at a rate of \$20 per day.

The cost of accumulated sick and vacation leave has been estimated to be \$783,480 as of June 30, 2011. This amount was not recorded in the financial statements.

4. Defined Benefit Pension Plan

Plan description. The District contributes to the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to KPERs (611 S Kansas Avenue, Suite 100, Topeka, KS 66603-3869) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary for active members hired before July 1, 2009. For active members employed on or after July 1, 2009, K.S.A. 74-49,210 establishes the KPERs member-employee contribution rate at 6% of covered salaries. Member-employees' contributions are withheld by their employer and paid to KPERs according to the provisions of section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas currently contributes 9.17% of covered payroll, which includes 1%

for Group Death and Disability Insurance. There was a moratorium on the 1% collection for Group Death and Disability Insurance from April 1, 2011 thru June 30, 2011. These contribution requirements are established by KPERS and are periodically revised. Kansas' contributions to KPERS for all Kansas public school employees for the years ending June 30, 2010 and 2009 were \$248,468,186 and \$242,277,363, respectively. For the year ending June 30, 2011, the required contribution was \$253,834,044. As of June 30, 2011, the State of Kansas contributed \$188,864,352. The remaining \$64,969,692 was contributed by July 12, 2011. The amount attributable to the District for the year ending June 30, 2011, was \$579,836.

5. Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on the funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by the federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at June 30, 2011.

At June 30, 2011, the District's carrying amount of deposits, including certificates of deposit, was \$3,944,808 and the bank balance was \$4,841,372. The bank balance was held by two financial institutions resulting in a concentration of credit risk. Of the bank balance, \$356,469 was covered by federal depository insurance, and \$4,484,903 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

6. Statutory Compliance**Cash Violation**

K.S.A. 10-1113 requires each fund to comply with the cash basis laws of the State of Kansas. That is, no commitments or indebtedness should be incurred unless there is available cash in the fund. The Adult Services Fund incurred indebtedness in excess of the available cash balance by \$28,954. This appears to be a violation of the cash basis law of the State of Kansas. However, K.S.A. 12-1664 allows a deficit unencumbered cash balance for federal aid funds, so the deficit cash balance in the Adult Services Fund is not a statutory violation. This deficit is expected to be eliminated when the grant proceeds are received.

7. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has been unable to obtain worker's compensation insurance at a cost it considered to be economically justifiable. For this reason, the District joined together with other districts in the State to participate in the Kansas Association of School Boards (KASB) Compensation Fund, Inc., a public risk pool currently operating as a common risk management and insurance program for 88 participating members.

The District pays an annual premium to KASB Workers Compensation Fund, Inc., for its worker's compensation insurance coverage. The agreement to participate provides that the group will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event. Additional premiums may be due if total claims for the pool are different than what has been anticipated by the management of KASB Workers Compensation Fund, Inc.

The District continues to carry commercial insurance for all other risks of loss, including property, liability, inland marine and automobile. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. Other Post Employment Benefits

As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. For certified employees who have twelve or more years of service with the District and retire at age 55 or older, the District pays a maximum of \$2,800 per year for health insurance until the retiree is eligible for Medicare or is eligible to be covered under another employer's primary group health insurance plan. During the year ended June 30, 2011, three certified retirees participated in this plan and the District paid \$8,400 in premiums for these retirees. Any remaining subsidy to retirees due to the plan's level premium structure has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

9. Operating Leases

The district is committed under an operating lease dated August 19, 2010, with Harries Leasing Company for twenty-eight vehicles. Future minimum operating lease commitments under this lease is as follows:

<u>Year ending</u>	
June 30, 2012	\$ 134,064

Expenditures under this operating lease were \$122,892 for the year ended June 30, 2011.

The district is committed under an operating lease dated August 19, 2010, with Harries Leasing Company for one vehicle. Future minimum operating lease commitments under this lease is as follows:

<u>Year ending</u>	
June 30, 2012	\$ 4,788
June 30, 2013	<u>4,389</u>
Total	\$ <u>9,177</u>

Expenditures under this operating lease were \$4,389 for the year ended June 30, 2011.

10. Operating Transfers

Interfund transfers within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis as authorized by Kansas Statutes. The District's operating transfers and statutory authority for June 30, 2011, were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Statute</u>
Medicaid Fund	Special Education Fund	\$247,999	Board Approved

11. Grant Programs

The District participates in various federal and state grant programs. Such awards are to be expended in accordance with the provisions of the various grants. These grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant. Any liability which may arise as a result of these audits cannot be reasonably determined at this time. Although, it is believed the amount, if any, would not be material.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Oakley, Kansas 67748

We have audited the accompanying financial statements of Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the guidance in the Kansas Municipal Audit Guide and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northwest Kansas Educational Service Center, Interlocal District No. 602's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Page Two

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Kansas Educational Service Center, Interlocal District No. 602's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also noted certain other matters that we reported to management of Northwest Kansas Educational Service Center, Interlocal District No. 602 in a separate letter dated January 23, 2012.

This report is intended solely for the information and use of the governing body and management of the District, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and other federal and state agencies to whose jurisdiction the District is subject, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Board of Directors, Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, is a matter of public record.

Mapes & Miller

Certified Public Accountants
January 23, 2012

MAPES & MILLER

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Oakley, Kansas 67748

Compliance

We have audited Northwest Kansas Educational Service Center, Interlocal District No. 602's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Northwest Kansas Educational Service Center, Interlocal District No. 602's major federal programs for the year ended June 30, 2011. Northwest Kansas Educational Service Center, Interlocal District No. 602's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northwest Kansas Educational Service Center, Interlocal District No. 602's management. Our responsibility is to express an opinion on Northwest Kansas Educational Service Center, Interlocal District No. 602's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Page Two

effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwest Kansas Educational Service Center, Interlocal District No. 602's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northwest Kansas Educational Service Center, Interlocal District No. 602's compliance with those requirements.

In our opinion, Northwest Kansas Educational Service Center, Interlocal District No. 602 complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Northwest Kansas Educational Service Center, Interlocal District No. 602 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northwest Kansas Educational Service Center, Interlocal District No. 602's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwest Kansas Educational Service Center, Interlocal District No. 602's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

To the Board of Directors
Northwest Kansas Educational Service Center
Interlocal District No. 602
Page Three

This report is intended solely for the information and use of the governing body and management of the District, and for filing with the Kansas Department of Administration, Division of Accounts and Reports, and other federal and state agencies to whose jurisdiction the District is subject, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Board of Directors, Northwest Kansas Educational Service Center, Interlocal District No. 602, Oakley, Kansas, is a matter of public record.

Mapes & Miller

Certified Public Accountants
January 23, 2012

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
INTERLOCAL DISTRICT NO. 602
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Northwest Kansas Educational Service Center, Interlocal District No. 602.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (Page 15).
3. No instances of noncompliance material to the financial statements of Northwest Kansas Education Service Center, Interlocal District No. 602, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and Internal Control over Compliance In Accordance with OMB Circular A-133 (Page 17).
5. The auditor's report on compliance for the major federal award programs for Northwest Kansas Educational Service Center, Interlocal District No. 602 expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included **Head Start Cluster**: Head Start – 93.600, ARRA - Head Start – 93.708, and ARRA - Early Head Start – 93.709; and **Special Education Cluster (IDEA)**: VI-B (94-142) – 84.027, IDEA Preschool – 84.173, ARRA - IDEA Part B – 84.391, and ARRA - IDEA Preschool – 84.392.
8. The threshold for distinguishing Types A and Type B programs was \$300,000.
9. The Northwest Kansas Educational Service Center, Interlocal District No. 602 was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit
None

C. Findings – Major Federal Award Programs Audit
None

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Head Start

Schedule 1

Schedule of Cash Receipts and Expenditures - Actual
For the Year Ended June 30, 2011

	Actual
Cash Receipts:	
Federal Aid	\$ 1,454,935
Federal Aid - ARRA	60,289
	<hr/>
Total Cash Receipts	1,515,224
	<hr/>
Expenditures:	
Salaries	905,634
Payroll Taxes & Employee Benefits	141,241
Contractual Services & Supplies	285,887
Travel	53,345
Food Purchases and Supplies	33,000
Salaries - ARRA	10,484
Payroll Taxes & Employee Benefits - ARRA	2,384
Contractual Services & Supplies - ARRA	23,767
Travel - ARRA	11,089
	<hr/>
Total Expenditures	1,466,831
	<hr/>
Cash Receipts over (under) Expenditures	48,393
Unencumbered Cash, Beginning	(93,573)
	<hr/>
Unencumbered Cash, Ending	\$ (45,180)
	<hr/>

Note A - Basis of Presentation

The information in this schedule is presented in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis laws of the State of Kansas.

The amounts on this schedule are included in the General Fund on page 4 of the financial statements. This schedule is prepared for federal agency reporting purposes only.

Note B - Summary of Significant Accounting Policies

See Note 1 to the financial statements, Summary of Significant Accounting Policies.

The notes to the financial statements are an integral part of this statement.

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Page 1

	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through Kansas Department Education:			
Special Education Cluster			
Special Education—Grants to States			
VI-B (94-142) - IDEA - FY 2010	84.027	3234-3050	\$ 1,300,119
VI-B (94-142) - Discretionary Special Projects - FY 2010	84.027	3234-3050	<u>56,958</u>
Total VI-B (94-142)			<u>1,357,077</u>
Special Education—Preschool Grants			
IDEA Preschool - FY 2010	84.173	3535-3550	<u>69,377</u>
Special Education—Grants to States, Recovery Act			
ARRA - IDEA Part B - FY 2010	84.391	3234-3055	<u>645,313</u>
Special Education—Preschool Grants, Recovery Act			
ARRA - IDEA Preschool - FY 2010	84.392	3535-3555	<u>27,181</u>
Total Special Education Cluster			<u>2,098,948</u>
Career and Technical Education—Basic Grants to States			
Vocational Education - FY 2011	84.048	3539-3590	<u>17,672</u>
English Language Acquisition Grants			
Title III - FY 2010	84.365	3522-3820	14,229
Title III - FY 2011	84.365	3522-3820	<u>3,235</u>
Total Title III			<u>17,464</u>
Title I Grants to Local Educational Agencies			
Title I Migrant - FY 2011	84.011	3537-3570	<u>535,560</u>
Passed through Kansas Department of Health and Environment:			
Special Education—Grants for Infants and Families			
Part C - FY 2011	84.181	3516-5010	<u>98,984</u>
Special Education—Grants for Infants and Families, Recovery Act			
ARRA - Part C	84.393	3516-5010	<u>17,193</u>
Passed through University of Kansas:			
Assistive Technology			
Regional Atech - FY 2010	84.224	2545-2688	1,538
Regional Atech - FY 2011	84.224	2545-2688	<u>18,179</u>
Total Regional Atech			<u>19,717</u>
Total U.S. Department of Education			\$ <u>2,805,538</u>

NORTHWEST KANSAS EDUCATIONAL SERVICE CENTER
Interlocal District No. 602
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Page 2

	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES			
Direct Aid:			
Head Start Cluster			
Head Start - FY 2011	93.600	N/A	\$ <u>1,419,107</u>
ARRA - Head Start - FY 2011	93.708	N/A	<u>47,724</u>
ARRA - Early Head Start - FY 2011	93.709	N/A	<u>461,320</u>
Total Head Start Cluster			<u>1,928,151</u>
Total U.S. Department of Health and Human Resources			<u>1,928,151</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Kansas Department of Education:			
Child and Adult Care Food Program - FY 2011	10.558	3531-3510	<u>134,537</u>
Passed through Kansas State University:			
Passed through SKIL Resource Center, Inc.:			
Cooperative Extension Service			
Agrability - FY 2011	10.500	929772553	17,305
Agrability - FY 2012	10.500	929772554	<u>3,869</u>
Total Agrability			<u>21,174</u>
Total U.S. Department of Agriculture			<u>155,711</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ <u>4,889,400</u></u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northwest Kansas Educational Service Center, Interlocal District No. 602 under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note B - Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards is prepared using the statutory basis of accounting to comply with the cash basis laws of the State of Kansas. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances.

Note C - Subrecipients

Of the federal expenditures presented in the schedule, Northwest Kansas Educational Service Center, Interlocal District No. 602 did not provided any federal awards to subrecipients.